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FOR EUR ASSISTANT SECRETARY FRIED FROM THE AMBASSADOR

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SUBJECT: WHAT'S AT STAKE: SCENE-SETTER FOR YOUR VISIT TO ROMANIA

Classified By: Ambassador Nicholas Taubman for 1.4 (b) and (d)

¶1. (C) When you arrive next week, Romania will be in the middle of an unprecedented 30-day suspension period for President Basescu. Barring further surprises in this soap opera, a May 19 national referendum will decide his fate; odds are he will be returned to office, perhaps by a wide margin. Yet domestic political developments over the next weeks and months will impact directly on whether Bucharest will continue to serve as a model U.S. partner in Europe -- including in the expeditionary "new NATO" -- or whether it will scale back its geopolitical aspirations and focus inward on the economic here-and-now of an also-ran EU member. Also at stake is the credibility of Romania's warring political institutions--parliament, the prime minister, and the presidency--and along with it the country's long-term political health. As Prime Minister Tariceanu and opposition leader Geoana, along with their allies in the post-Communist old guard, rush to strip away the President's remaining levers during this suspension period, our interests could be trampled on as well. There are signs of growing influence of Russian-influenced oligarchs on economic and energy policy; backtracking in the fight against corruption; and a quickening Euro-centric policy drift. The latest government makeover has undeniably set back day-to-day governance and policy continuity. There are risks that we may see follow-on impacts on key equities, including Romania's next generation strike fighter procurement and the privatization of a major auto plant that two U.S. manufacturers are actively vying for. In short, the stakes are high during your visit, and you have a chance to make a real impact.

¶2. (C) You will hear for yourself that the rules of the suspension game continue to change. Despite the PM's assurances that the referendum would be conducted under existing laws, the Constitutional Court declared on May 3 that legislation lowering the threshold for removing a sitting President (from a majority of all registered voters to a simple majority of all cast votes) meets the constitutional smell test. The Court has not yet issued its detailed argumentation as to whether the decision applies to Basescu's upcoming referendum test or only to future referenda. Rumors abound of as yet uncorked political games and "scenarios." I gave an interview to a Romanian weekly this week in which I made the point that the political actors cannot tilt the table in a genuinely democratic contest. We want you to put down a marker that while politics can be rough, it has to be played according to democratic rules. That said, Basescu and his political allies are confident they will prevail despite the Court decision, and recent polling data supports this.

¶3. (C) Outwardly, interim President Vacaroiu has assumed a caretaker role. However, the absence of the pro-American Basescu from the Supreme Defense Council (CSAT) gives an opening for mischief-making, including ramming through a

policy decision to implement PM Tariceanu's aim of withdrawing all Romanian troops from Iraq by year's end. New Defense Minister Melescanu goes further, and argues that Romania is overcommitted militarily and should reduce its overseas commitments from the current 17-1800 troops to 7-800 troops overseas. Another concern is a new national security law that would strip the Presidency of its current powers over foreign policy and the intelligence services. The legislation, prepared by the Prime Minister's allies, would reportedly shift control of the intelligence services to the PM, take wiretapping authority away from the current domestic service, and place it under a new authority controlled directly by the Parliament -- a recipe for disaster. You should express our concern that changing the basic terms of reference governing the intelligence services could undermine our extraordinarily close cooperation in this area.

¶4. (C) The recent cabinet reshuffle and the previous high turnover in senior GOR positions means loss of policy continuity and know-how. Many important positions, including the Romanian Ambassador to the United States, still remain unfilled. Tariceanu's new team also appears intent on overturning many decisions made by the previous administration. MOD Melescanu, for example, declared that he is now looking at "all possibilities" for a follow-on fighter aircraft to replace the ROAF's aging MIG-21s. Previously, President Basescu and others told us there was just one real contender--namely a lease-purchase deal for Lockheed-Martin F-16s and F-35s, which would help cement, for decades to come, future Romanian interoperability with US forces. A europhile Prime Minister may lean increasingly towards more "European" options in the defense field, in which short-sighted decisions could undermine the unabashedly Atlanticist strategic direction of the last two Romanian

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governments.

¶5. (C) Also disturbing is the rising clout of Romania's oligarchs and their role as a cat's paw for Russian interests. Since 1989, various moguls have grabbed bits of the lucrative energy sector, buying in cheaply through corrupt means, looting the assets, and manipulating subsidized electricity and natural gas to run dinosaur industries on the cheap. The GOR is dithering on privatizing electricity production and gas distribution, since oligarchs want to manipulate these assets for price breaks. To make matters worse, Russian interests are now circling many of these assets and have already purchased a struggling oil refinery (RAFO). Romania's position at the crossroads of several potential energy pipelines means it could play a positive role in diversifying supplies to the EU, but the oligarchs appear willing to sacrifice national interests for their own ones.

¶6. (C) Another sign of growing Russian ambitions involves the sale of the now-bankrupt Daewoo automobile plant in Craiova. Two American companies, Ford and GM, are interested in buying the factory. Bureaucratic incompetence and dithering have delayed the privatization process and the promised June 2007 date for privatization will not be fulfilled. The GOR now promises a September sell-by date, but I am skeptical about this new deadline as well. We have just seen the dark-horse submission of a letter of intent to bid on the factory by one of Russia's infamous oligarchs, Oleg Deripaska. Deripaska already owns an aluminum factory in Romania and wants to expand his reach within the EU by purchasing the Craiova factory. The Romanian Prime Minister claims no knowledge of the bid, but I don't see this as plausible, given his intense personal interest in this deal.

¶7. (C) Finally, many of the best "honest cops" who have tried to rein in corruption and increase fiscal and economic oversight (Monica Macovei, for example) have been replaced by party hacks or inexperienced replacements who are unlikely to make waves. The potential for a rapid deterioration in the

GOR's fiscal sobriety is also great given the control of the parliament and the budget by individuals who will want to buy the electorate's goodwill prior to this fall's MEP elections and next year's national elections. While the Europeans have for the most part been silent, some of my counterparts--most notably the Dutch and Norwegian Ambassadors--have begun to speak out publicly on the effect that prolonged political turmoil may have on governance, the fight against corruption, and on the investment climate. We need to establish a common front with our EU counterparts to ensure that current nascent signs of Romanian back-sliding don't become a full rout.

¶8. (C) Our message has been getting through. My public comments about the impact of the political turmoil on Romania's reputation, and the need to play by democratic rules, have registered. The decision to hold up Geoana's U.S. visit likewise got his attention, and that of others. Yet the 2008 NATO summit announcement was a tangible sign that we are not simply throwing up our hands and walking away. We need to continue to find the right balance between assuring our interlocutors that we are serious about a long-term partnership that goes beyond political personalities, and telling them frankly where they are coming up short or putting our common interests in jeopardy. Your visit could not be timed better, on the eve of important decisions on Romania's Iraq deployment and national security strategy. You can do a lot to consolidate our three bottom line points: Romania's domestic politics should not undermine our strategic equities; Romanians need to play by democratic rules if they want to be our close partner; Romania cannot slip backwards on fighting corruption and strengthening the rule of law.

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